

QUARTERLY REPORT

LICENSEE: GREATE BAY HOTEL AND CASINO, INC.

FOR THE QUARTER ENDED SEPTEMBER 30, 2002

**TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY**



**DIVISION OF FINANCIAL EVALUATION
REPORTING MANUAL**

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
BALANCE SHEETS

AS OF SEPTEMBER 30, 2002 AND 2001

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
	ASSETS		
	Current Assets:		
1	Cash and Cash Equivalents.....	\$ 16,340	\$ 26,439
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2002, \$12,183; 2001, \$12,185).....	5,371	11,536
4	Inventories.....	2,003	2,605
5	Prepaid Expenses and Other Current Assets.....	5,156	4,333
6	Total Current Assets.....	28,870	44,913
7	Investments, Advances, and Receivables.....	9,979	8,952
8	Property and Equipment - Gross..... Note 6.....	194,853	175,629
9	Less: Accumulated Depreciation and Amortization..... Note 6.....	(21,940)	(10,216)
10	Property and Equipment - Net..... Note 6.....	172,913	165,413
11	Other Assets.....	3,307	1,712
12	Total Assets.....	\$ 215,069	\$ 220,990
	LIABILITIES AND EQUITY		
	Current Liabilities:		
13	Accounts Payable.....	\$ 4,627	\$ 7,419
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates..... Note 2.....	4,500	-
16	Other..... Note 2.....	22	19
17	Income Taxes Payable and Accrued..... Note 3.....	67	590
18	Other Accrued Expenses.....	10,246	18,772
19	Other Current Liabilities.....	3,233	5,599
20	Total Current Liabilities.....	22,695	32,399
	Long-Term Debt:		
21	Due to Affiliates..... Note 2.....	110,000	110,000
22	Other..... Note 2.....	336	357
23	Deferred Credits.....	-	-
24	Other Liabilities.....	3,374	3,939
25	Commitments and Contingencies		
26	Total Liabilities.....	136,405	146,695
27	Stockholders', Partners', Or Proprietor's Equity.....	78,664	74,295
28	Total Liabilities and Equity.....	\$ 215,069	\$ 220,990

The accompanying notes are an integral part of the financial statements.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
	Revenue:		
1	Casino.....	\$ 161,445	\$ 180,832
2	Rooms.....	8,665	8,903
3	Food and Beverage.....	18,300	22,525
4	Other.....	2,875	3,644
5	Total Revenue.....	191,285	215,904
6	Less: Promotional Allowances..... Note 7.....	38,662	49,430 *
7	Net Revenue.....	152,623	166,474 *
	Costs and Expenses:		
8	Cost of Goods and Services.....	102,923	114,256
9	Selling, General, and Administrative..... Note 7.....	27,645	31,821 *
10	Provision for Doubtful Accounts.....	1,253	2,624
11	Total Costs and Expenses.....	131,821	148,701 *
12	Gross Operating Profit.....	20,802	17,773
13	Depreciation and Amortization.....	9,578	7,696
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) From Operations.....	11,224	10,077
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates	(8,399)	(9,075)
18	Interest (Expense) - External.....	(242)	(298)
19	Investment Alternative Tax and Related Income (Expense) - Net....	(1,063)	(956)
20	Nonoperating Income (Expense) - Net.....	(915)	479
21	Total Other Income (Expenses).....	(10,619)	(9,850)
22	Income (Loss) Before Income Taxes And Extraordinary Items.....	605	227
23	Provision (Credit) for Income Taxes..... Note 3.....	825	590
24	Income (Loss) Before Extraordinary Items.....	(220)	(363)
	Extraordinary Items (Net of Income Taxes -		
25	2002, \$ - ; 2001, \$ -).....	-	-
26	Net Income (Loss).....	\$ (220)	\$ (363)

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
	Revenue:		
1	Casino.....	\$ 53,921	\$ 65,667
2	Rooms.....	2,870	3,302 *
3	Food and Beverage.....	6,083	7,961 *
4	Other.....	897	1,338
5	Total Revenue.....	63,771	78,268
6	Less: Promotional Allowances..... Note 7.....	13,974	17,283 *
7	Net Revenue.....	49,797	60,985 *
	Costs And Expenses:		
8	Cost of Goods and Services.....	34,139	39,561
9	Selling, General, and Administrative..... Note 7.....	9,532	10,329 *
10	Provision for Doubtful Accounts.....	341	1,046
11	Total Costs and Expenses.....	44,012	50,936 *
12	Gross Operating Profit.....	5,785	10,049
13	Depreciation and Amortization.....	3,315	2,454
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) From Operations.....	2,470	7,595
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....	(2,881)	(3,025)
18	Interest (Expense) - External.....	(77)	(110)
19	Investment Alternative Tax and Related Income (Expense) - Net...	(461)	(382)
20	Nonoperating Income (Expense) - Net.....	76	119
21	Total Other Income (Expenses).....	(3,343)	(3,398)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	(873)	4,197
23	Provision (Credit) for Income Taxes..... Note 3.....	193	1,703
24	Income (Loss) Before Extraordinary Items.....	(1,066)	2,494
25	Extraordinary Items (Net of Income Taxes - 2002, \$ - ; 2001, \$ -).....	-	-
26	Net Income (Loss).....	\$ (1,066)	\$ 2,494

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2001 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2000	100	\$ -		\$	65,859	\$	(7,500)	\$ 58,359
2	Net Income (Loss) -							(3,274)	(3,274)
3	Contribution to Paid-in-Capital.....					23,800			23,800
4	Dividends.....								
5	Prior Period Adjustments.....							(1)	(1)
6								
7								
8								
9								
10	Balance, December 31, 2001.....	100	\$ -		\$	89,659		(10,775)	\$ 78,884
11	Net Income (Loss) - 2002.....							(220)	(220)
12	Contribution to Paid-in - Capital.....								
13	Dividends.....								
14	Prior Period Adjustments.....								
15								
16								
17								
18								
19	Balance, September 30, 2002.....	100	\$ -		\$	89,659	\$	(10,995)	\$ 78,664

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 11,277	\$ 9,228
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....	-	-
3	Proceeds from the Sale of Short-Term Investment Securities.....	-	-
4	Cash Outflows for Property and Equipment.....	(12,728)	(14,487)
5	Proceeds from Disposition of Property and Equipment.....	79	7
6	Purchase of Casino Reinvestment Obligations.....	(1,995)	(2,019)
7	Purchase of Other Investments and Loans/Advances made.....	-	-
	Proceeds from Disposal of Investments and Collection		
8	of Advances and Long-Term Receivables.....	213	114
9	Cash Outflows to Acquire Business Entities (net of cash acquired).	-	-
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(14,431)	(16,385)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....	-	-
14	Payments to Settle Short-Term Debt.....	-	-
15	Cash Proceeds from Issuance of Long-Term Debt.....	-	-
16	Costs of Issuing Debt.....	-	-
17	Payments to Settle Long-Term Debt.....	(13)	(462)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....	-	16,300
19	Purchases of Treasury Stock.....	-	-
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	(13)	15,838
24	Net Increase (Decrease) In Cash And Cash Equivalents.....	(3,167)	8,681
25	Cash And Cash Equivalents At Beginning Of Period.....	19,507	17,758
26	Cash And Cash Equivalents At End Of Period.....	\$ 16,340	\$ 26,439

	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 12,127	\$ 6,096
28	Income Taxes.....	\$ 1,550	\$ -

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ (220)	\$ (363)
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment....	9,014	7,510
31	Amortization of Other Assets.....	564	186
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	(385)	-
35	(Gain) Loss on Disposition of Property and Equipment.....	1,256	17
36	(Gain) Loss on Casino Reinvestment Obligations.....	1,063	956
37	(Gain) Loss from Other Investment Activities.....	-	-
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	3,540	(370)
39	Net (Increase) Decrease in Inventories.....	428	246
40	Net (Increase) Decrease in Other Current Asset.....	(1,730)	(282)
41	Net (Increase) Decrease in Other Assets.....	1	(12)
42	Net Increase (Decrease) in Accounts Payable.....	(2,216)	(2,403)
	Net Increase (Decrease) in Other Current Liabilities Excluding Debt.....	(466)	3,582
43	Net Increase (Decrease) in Other Noncurrent Liabilities Excluding Debt.....	428	161
44			
45			
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 11,277	\$ 9,228

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ 12,728	\$ 14,487
49	Less: Capital Lease Obligations Incurred.....	-	-
50	Cash Outflows For Property And Equipment.....	\$ 12,728	\$ 14,487
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
53	Net Assets Acquired Other than Cash, Goodwill, and Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows To Acquire Business Entities.....	\$ -	\$ -
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$ -	\$ 16,300
58	Less: Issuances to Settle Long-Term Debt.....	-	-
59	Consideration in Acquisition of Business Entities.....	-	-
60	Cash Proceeds From Issuing Stock Or Capital Contributions.....	\$ -	\$ 16,300

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL AND CASINO
SCHEDULE OF PROMOTIONAL
EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	251,285	\$ 5,775		\$
2	Food	397,321	5,702		
3	Beverage	2,677,982	3,379		
4	Travel			1,101	646
5	Bus Program Cash	580,734	8,713		
6	Other Cash Complimentaries	214,528	14,652		
7	Entertainment	6,352	237		
8	Retail & Non-Cash Gifts			704,080	4,048
9	Parking			339,580	509
10	Other	25,486	204		
11	Total	4,153,688	\$ 38,662	1,044,761	\$ 5,203

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	92,657	\$ 2,344		\$
2	Food	113,790	1,483		
3	Beverage	1,058,428	1,022		
4	Travel			194	80
5	Bus Program Cash	257,438	3,856		
6	Other Cash Complimentaries	85,892	5,133		
7	Entertainment	2,508	80		
8	Retail & Non-Cash Gifts			232,121	1,441
9	Parking			118,503	178
10	Other	6,939	56		
11	Total	1,617,652	\$ 13,974	350,818	\$ 1,699

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1) Organization, Business and Basis of Presentation

Greate Bay Hotel and Casino, Inc. ("GBHC") is a New Jersey corporation and wholly owned subsidiary of GB Holdings, Inc. ("Holdings"), a Delaware corporation. Holdings was a wholly owned subsidiary of Pratt Casino Corporation ("PCC") through December 31, 1998. PCC, a Delaware corporation, was incorporated in September 1993 and was wholly owned by PPI Corporation ("PPI"), a New Jersey corporation and a wholly owned subsidiary of Greate Bay Casino Corporation ("GBCC"). Effective after December 31, 1998, PCC transferred 21% of the stock ownership in Holdings to PBV, Inc. ("PBV"), a newly formed entity controlled by certain stockholders of GBCC. As a result of a certain confirmed plan of reorganization of PCC and others in October 1999, the remaining 79% stock interest of PCC in Holdings was transferred to Greate Bay Holdings, LLC ("GBLLC"), whose sole member as a result of the same reorganization was PPI. In February 1994, Holdings acquired Greate Bay Hotel and Casino, Inc. ("GBHC"), a New Jersey corporation, through a capital contribution by its then parent. GBHC's only business activity is its ownership of the Sands Hotel and Casino located in Atlantic City, New Jersey (the "Sands"). GB Property Funding Corp. ("GB Property Funding"), a Delaware corporation and a wholly owned subsidiary of Holdings, was incorporated in September 1993 as a special purpose subsidiary of Holdings for the purpose of borrowing funds for the benefit of GBHC. Effective September 2, 1998, GBHC acquired the membership interests in Lieber Check Cashing LLC ("Lieber"), a New Jersey limited liability company that owned a land parcel adjacent to GBHC.

The accompanying consolidated financial statements include the accounts and operations of GBHC and Lieber. All significant intercompany balances and transactions have been eliminated.

On January 5, 1998, GBHC, Holdings and GB Property Funding filed petitions for relief under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"). On August 14, 2000, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the Modified Fifth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code Proposed by the Official Committee of Unsecured Creditors and High River Limited Partnership and its Affiliates (the "Plan") for GBHC, Holdings and GB Property Funding. High River Limited Partnership ("High River") is an entity controlled by Carl C. Icahn. On September 13, 2000, the New Jersey Casino Control Commission (the "Commission") approved the Plan. On September 29, 2000, the Plan became effective (the "Effective Date"). All material conditions precedent to the Plan becoming effective were satisfied on or before September 29, 2000.

A significant amount of GBHC's revenues are derived from patrons living in northern New Jersey, southeastern Pennsylvania and metropolitan New York City. Competition in the Atlantic City gaming market is intense and management believes that this competition will continue or intensify in the future.

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain reclassifications have been made to prior year's consolidated financial statements to conform to the current year's consolidated financial statement presentation.

(2) Long-Term Debt

Long-term debt is comprised of the following:

	September 30,	
	2002	2001
11% notes, due 2005	\$ 110,000,000	\$ 110,000,000
Due to Holdings	4,500,000	-
Other	358,000	376,000
Total	114,858,000	110,376,000
Less - current maturities	(4,522,000)	(19,000)
Total long-term debt	<u>\$ 110,336,000</u>	<u>\$ 110,357,000</u>

As a result of the Confirmation Order and the occurrence of the Effective Date and under the terms of the Plan, GB Property Funding issued \$110,000,000 of 11% notes due 2005 (the "New Notes"). Interest on the New Notes is payable on March 29 and September 29, beginning March 29, 2001. The outstanding principal is due on September 29, 2005. The New Notes are unconditionally guaranteed, on a joint and several basis, by both Holdings and GBHC, and are secured by substantially all of the assets, as of the Effective Date, other than cash and gaming receivables of Holdings and GBHC.

The original indenture for the New Notes contained various provisions, which, among other things, restricted the ability of Holdings, and GBHC to incur certain senior secured indebtedness beyond certain limitations and contained certain other limitations on the ability to merge, consolidate, or to sell substantially all of their assets, to make certain restricted payments, to incur certain additional senior liens, and to enter into certain sale-leaseback transactions.

In a Consent Solicitation Statement and Consent Form dated September 14, 2001, GB Property Funding sought the consent of holders of the New Notes to make certain changes to the original indenture (the "Modifications"). The Modifications included, but were not limited to, a deletion of, or changes to, certain provisions the result of which would be (i) to permit Holdings and its subsidiaries to incur any additional indebtedness without restriction, to issue preferred stock without restriction, to make distributions in respect of preferred stock and to prepay indebtedness without restriction, to incur liens without restriction and to enter into sale-leaseback

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) **(Unaudited)**

transactions without restriction, (ii) to add additional exclusions to the definition of "asset sales" to exclude from the restrictions on "asset sales" sale-leaseback transactions, conveyances or contributions to any entity in which Holdings or its subsidiaries has or obtains equity or debt interests, and transactions (including the granting of liens) made in accordance with another provision of the Modifications relating to collateral release and subordination or any documents entered into in connection with an "approved project" (a new definition included as part of the Modifications which includes, if approved by the Board of Directors of Holdings, incurrence of indebtedness or the transfer of assets to any person if Holdings or any of its subsidiaries has or obtain debt or equity interests in the transferee or any similar, related or associated event, transaction or activity) in which a release or subordination of collateral has occurred including, without limitation, any sale or other disposition resulting from any default or foreclosure, (iii) to exclude from the operation of covenants related to certain losses to collateral any assets and any proceeds thereof, which have been subject to the release or subordination provisions of the Modifications, (iv) to permit the sale or other conveyances of Casino Reinvestment Development Authority investments in accordance with the terms of a permitted security interest whether or not such sale was made at fair value, (v) to exclude from the operation of covenants related to the deposit into a collateral account of certain proceeds of "asset sales" or losses to collateral any assets and any proceeds thereof, which have been subject to the release or subordination provisions of the Modifications, (vi) to add new provisions authorizing the release or subordination of the collateral securing the New Notes in connection with, in anticipation of, as a result of, or in relation to, an "approved project", and (vii) various provisions conforming the text of the original indenture to the intent of the preceding summary of the Modifications.

Holders representing approximately 98% in principal amount of the New Notes provided consents to the Modifications. Under the terms of the original indenture, the consent of holders representing a majority in principal amount of New Notes was a necessary condition to the Modifications. Accordingly, GB Property Funding, as issuer, and Holdings and GBHC, as guarantors, and Wells Fargo Bank Minnesota, National Association, as Trustee, entered into an Amended and Restated Indenture dated as of October 12, 2001, containing the Modifications to the original indenture described in the Consent Solicitation Statement (the "Amended and Restated Indenture"). In accordance with the terms of the Consent Solicitation Statement, holders of New Notes, who consented to the Modifications and who did not revoke their consents ("Consenting Noteholders"), were entitled to \$17.50 per \$1,000 in principal amount of New Notes, subject to certain conditions including entry into the Amended and Restated Indenture. Upon entry into the Amended and Restated Indenture on October 12, 2001, GBHC transferred approximately \$1.9 million to the Trustee for distribution to Consenting Noteholders.

In August 2002, GBHC borrowed \$4.5 million from Holdings. The intercompany borrowing bears no interest and has no set repayment terms.

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

Total scheduled maturities of long-term debt as of September 30, 2002, are set forth below:

2002 (three months)	\$ 6,000
2003	4,521,000
2004	23,000
2005	110,026,000
2006	28,000
Thereafter	254,000
Total	<u>\$ 114,858,000</u>

At September 30, 2002 and 2001, accrued interest on the New Notes was \$67,000 and \$6,050,000, respectively.

(3) Income Taxes

The components of the provision (credit) for income taxes are as follows:

	Nine Months Ending September 30,	
	2002	2001
Federal income tax provision (credit):		
Current	\$ 215,000	\$ (645,000)
Deferred	-	-
State income tax provision (credit):		
Current	610,000	-
Deferred	-	-
	<u>\$ 825,000</u>	<u>\$ (645,000)</u>

Prior to 1997, GBHC was included in the consolidated federal income tax return of Hollywood Casino Corporation ("HCC"). GBHC's operations were included in GBCC's consolidated federal income tax returns for the years ended December 31, 1998 and 1997, but GBCC agreed to allow GBHC to become deconsolidated from the GBCC group effective after December 31, 1998. In accordance therewith, PCC transferred 21% of the stock ownership in Holdings to PBV, effecting the deconsolidation of GBHC from the GBCC group for federal income tax purposes (the "Deconsolidation"). Accordingly, beginning in 1999, GBHC's provision for federal income taxes has been calculated and paid on a consolidated basis.

At September 30, 2002, GBHC had deferred tax assets including State net operating losses, Federal credit carryforwards and temporary differences. The enactment of the New Jersey Business Tax Reform Act ("BTR") on July 2, 2002 deferred the State net operating losses ("State

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) **(Unaudited)**

NOL's"), set to begin expiring in 2003, for a two year period. A portion of the credit carryforwards, if not utilized, will begin to expire each year through 2004. The remaining credit carryforwards expire through the year 2019. In addition, as part of a certain settlement agreement, GBCC may utilize Federal net operating losses ("Federal NOL's") of GBHC through December 31, 1998 to offset federal taxable income of GBCC and other members of its consolidated tax group. GBHC has utilized the balance of its Federal NOL's in its 1999 (amended) and 2000 consolidated Federal tax returns. Statement of Financial Accounting Standards No. 109 ("FAS 109") requires that the tax benefit of NOL's and deferred tax assets resulting from temporary differences be recorded as an asset and, to the extent that management can not assess that the utilization of all or a portion of such NOL's and deferred tax assets is more likely than not, requires the recording of a valuation allowance. Due to various uncertainties, management is unable to determine that realization of GBHC's deferred tax asset is more likely than not and, thus, has provided a valuation allowance for the entire amount at September 30, 2002 and December 31, 2001.

The Internal Revenue Service has examined the consolidated federal income tax returns of HCC for the years 1995 and 1996 and the consolidated federal income tax returns for GBCC for the years 1997 and 1998 in which GBHC was included (the "Audit"). GBCC management has disclosed in its annual SEC Form 10-K, filed for the year ended December 31, 2001, that the Audit is substantially complete and has resulted in adjustments to GBCC's Federal NOL's and deferred tax assets. GBHC is dependent on HCC and was dependent on GBCC for information as to their operations including their affiliates and the impact of those operations on the former HCC and GBCC consolidated groups' Federal NOL's. GBHC has not yet received information regarding the details of the Audit adjustments and, therefore, is unable to estimate their impact on GBHC's financial position or results of operations. In addition, GBCC filed a petition for relief in the United States Bankruptcy Court for the District of Delaware in 2001 and a plan was confirmed in 2002. GBCC's Plan provided for the liquidation of GBCC, and GBHC was notified that the Plan became effective in July 2002.

The State of New Jersey is examining the state corporate business tax return of GBHC for the years 1996, 1997 and 1998. It is management's position that any claims by the State of New Jersey against GBHC attributable to anytime prior to January 5, 1998 are barred by applicable provisions of the Bankruptcy Code. Management is presently unable to estimate the impact of New Jersey's tax audit on the financial position or results of operations of GBHC.

Federal and State income tax benefits or provisions are based upon the results of operations for the current period and the estimated adjustments for income tax purposes of certain nondeductible expenses. The Federal income tax provision of \$215,000 for the nine months ended September 30, 2002 is a result of applying the statutory Federal income tax rate of 35% to the pretax income after adjustments for income tax purposes.

On July 2, 2002, the BTR was signed into law. The BTR revises and updates the New Jersey corporation business tax and establishes filing fees for certain returns. Included in the BTR is a deferral on the use of State NOL's until tax year 2005. Those State NOL's that would have been utilized in tax years 2002 and 2003 will be granted a two year extension of their expiration period. Additionally, the BTR imposes an alternative minimum assessment ("AMA") based on gross receipts or gross profits. The taxpayer pays the greater of the AMA or the regular corporate

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) **(Unaudited)**

business tax (CBT). The AMA provision is discontinued after 2006 and any portion of the AMA in excess of the regular CBT is allowed as a non-expiring future credit carryforward. Due to various uncertainties, management is unable to determine that realization of the future credit carryforward is more likely than not and, thus, has provided a valuation allowance for the entire amount at September 30, 2002.

The State income tax provision of \$610,000 for the three and nine months ended September 30, 2002 is a result of retroactively applying the statutory AMA rate of .4% to gross receipts, as defined in the BTR. Since the BTR was enacted in the third quarter of 2002, its entire impact is included in the State income tax provision of the consolidated statements of income for both the three and nine months ended September 30, 2002.

(4) Transactions with Related Parties

GBHC's rights to the trade name "Sands" (the "Trade Name") were derived from a license agreement between GBCC and an unaffiliated third party. Amounts payable by the Sands for these rights were equal to the amounts paid to the unaffiliated third party. As a result of the Confirmation Order and the occurrence of the Effective Date and under the terms of the Plan, GBHC was assigned by High River the rights under a certain agreement with the owner of the Trade Name to use the Trade Name as of the Effective Date through May 19, 2086 subject to termination rights for a fee after a certain minimum term. High River received no payments for its assignment of these rights. Payment is made directly to the owner of the Trade Name. The calculation of the license fee is the same as under the previous agreement. Such charges amounted to \$212,000 and \$207,000, respectively, for the nine months ended September 30, 2002 and 2001.

During the three and nine months ended September 30, 2002, GBHC borrowed \$4.5 million from Holdings.

(5) Legal Proceedings

GBHC filed tax appeals with the New Jersey Tax Court challenging the amount of its real property assessment for calendar years 1996 through 2001, inclusive, and filed an appeal for calendar year 2002 with the Atlantic County Tax Board. The City of Atlantic City also appealed the amount of the assessments for the years 1996 through 2001, inclusive, and filed a cross-petition with the Atlantic County Tax Board for calendar year 2002.

GBHC discovered certain failures relating to currency transaction reporting and self-reported the situation to the applicable regulatory agencies. GBHC conducted an internal examination of the matter and the New Jersey Division of Gaming Enforcement conducted a separate review. GBHC has revised internal control processes and taken other measures to address the situation. GBHC may be subjected to regulatory sanctions, which may include cash penalties. However, the potential cash penalties cannot be estimated at this time.

GBHC is a party in various legal proceedings with respect to the conduct of casino and hotel operations and has received employment related claims. Although a possible range of losses cannot be estimated, in the opinion of management, based upon the advice of counsel, GBHC

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

does not expect settlement or resolution of these proceedings or claims to have a material adverse impact upon the consolidated financial position or results of operations of GBHC, but the outcome of litigation and the resolution of claims is subject to uncertainties and no assurances can be given. The accompanying consolidated financial statements do not include any adjustments that might result from these uncertainties.

(6) Property and Equipment

Property and equipment consisted of the following:

	September 30,	
	2002	2001
Land	\$ 54,814,000	\$ 54,814,000
Buildings and improvements	91,720,000	86,690,000
Operating equipment	42,595,000	21,701,000
Construction in progress	5,724,000	12,424,000
	194,853,000	175,629,000
Less: accumulated depreciation and amortization	(21,940,000)	(10,216,000)
Net property and equipment	<u>\$ 172,913,000</u>	<u>\$ 165,413,000</u>

(7) New Accounting Pronouncement

In 2001, the Emerging Issues Task Force (the "EITF") reached a consensus on Issue No. 01-09: "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" ("EITF 01-09"). For a sales incentive offered voluntarily by a vendor to its patrons, EITF 01-09 requires the vendor to recognize the cost of the sales incentive at the later of the date at which the related revenue is recorded by the vendor, or the date at which the sales incentive is offered. Application of EITF 01-09 is required in annual or interim financial statements for periods beginning after December 15, 2001. EITF 01-09 requires, among other things, that cash or other consideration provided to customers as part of a transaction is presumed to be a reduction in revenue unless the vendor is able to establish both that it received or will receive a separate identifiable benefit and the fair value of the benefit can be reasonably estimated. GBHC offers cash inducements to encourage visitation and play at the casino and, as GBHC was unable to meet the criteria as discussed in EITF 01-09, these costs have been classified as promotional allowances on the accompanying consolidated statements of operations.

With the adoption of the new standards, the prior year periods presented have been reclassified to conform to the new presentation. This resulted in a \$5.8 million and \$16.7 million increase in promotional allowances (and a corresponding reduction in selling, general and administrative expenses for the three and nine months ended September 30, 2001, respectively. Application of the requirements of EITF 01-09 do not have an impact on previously reported income (loss) from operations or net income.

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) **(Unaudited)**

In 2001, the Financial Accounting Standards Board ("FASB") issued FASB Statements Nos. 141 and 142 ("FAS 141" and "FAS 142"): "Business Combinations" and "Goodwill and Other Intangible Assets," respectively. FAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under FAS 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. FAS 141 is effective for all business combinations completed after June 30, 2001. Upon adoption of FAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under FAS 141 will be reclassified to goodwill. Companies are required to adopt FAS 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted. The adoption of these standards did not have any impact on GBHC's results of operations or financial position, as GBHC does not have intangible assets or goodwill.

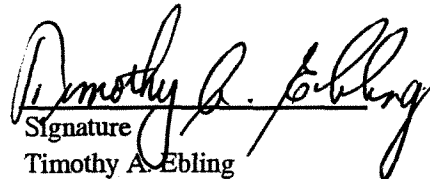
In 2001, the FASB issued FASB Statement No. 143, which addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement is effective for fiscal years beginning after June 15, 2002. Management is currently assessing the impact of this new standard.

In 2002, GBHC adopted FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS No. 144"), which excludes from the definition of long-lived assets goodwill and other intangibles that are not amortized in accordance with FAS No. 142. FAS No. 144 requires that long-lived assets to be disposed of by sale be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. FAS No. 144 also expands the reporting of discontinued operations to include components of an entity that have been or will be disposed of rather than limiting such discontinuance to a segment of a business. The adoption of FAS No. 144 did not have a material impact on GBHC's consolidated financial statements.

In June 2002, FASB issued FASB Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146"). FAS 146 nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3") and requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value in the period in which the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. The adoption of FAS 146 is expected to result in delayed recognition for certain types of costs as compared to the provisions of EITF 94-3. FAS 146 is effective for new exit or disposal activities that are initiated after December 31, 2002. FAS 146 will affect the types and timing of costs included in future restructuring programs, if any, but is not expected to have a material impact on GBHC's financial position or results of operations.

STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



Signature

Timothy A. Ebling

President,

Chief Financial Officer

Title

003052-11

License Number

On Behalf Of:

Greate Bay Hotel And Casino, Inc.
Casino Licensee